

## **Special Feature**

### **JetBlue's Effect on the New York City - Buffalo Market**

The data provided in the Domestic Consumer Air Fare Report is not airport specific, but rather aggregated by markets. For example, traffic between Chicago-Midway and Los Angeles is added to traffic between Chicago-O'Hare and Los Angeles to represent all Chicago-Los Angeles traffic. Generally, low-fare entry into one airport in a multiple-airport city will result in lower fares in the market as a whole. This Special Feature examines the effects of JetBlue entry into the New York City – Buffalo market on Buffalo service at each of New York's three airports – JFK International Airport (JFK), LaGuardia, and Newark.

#### **JetBlue**

In February 2000 JetBlue, a new entrant airline, began service out of slot-constrained JFK in New York City. JetBlue bills itself as a discount airline. Its modern fleet of Airbus A320s, ticketless travel, and minimal in-flight service help control costs. Only coach service is available; passengers are not required to pay disproportionately more for one-way travel or more for trips in which they are not staying over at their destination for a Saturday night.

JetBlue currently provides service to twelve domestic destinations. In the northeast, JetBlue hubs out of JFK International Airport and flies to Buffalo, Rochester, and Burlington, VT. From JFK, JetBlue also provides nonstop service to five Florida destinations as well as Salt Lake City, UT, Oakland, CA, and Ontario, CA. JetBlue's website lists one-way prices from JFK to northeastern destinations of between \$49 and \$99; JFK to Florida fares range from \$79 to \$179; West coast fares range from \$129 to \$249; and JFK to Salt Lake City fares range from \$99 to \$249.

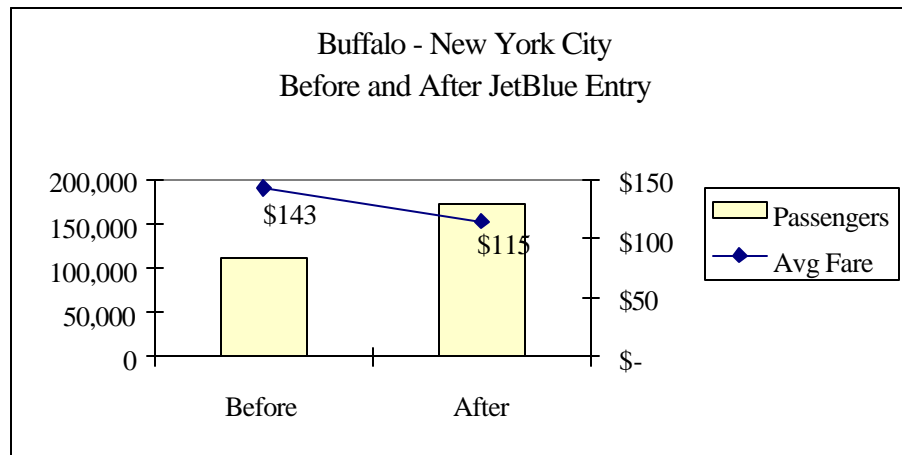
For the period covered in this report, JetBlue had only implemented service to two Florida destinations and Buffalo. We have chosen to examine the Buffalo market in more detail, as discretionary Florida markets usually already have relatively competitive fares. At the start of the second quarter of 2000, JetBlue had three daily nonstops to Buffalo, and added two additional daily flights over the course of the quarter. All of JetBlue's passengers in the market paid less than \$125 each way. Over one-half of JetBlue's 55,680 passengers in the market paid between \$51 and \$75.

The differing strategies of the dominant carriers at the three New York airports demonstrate the full spectrum of potential competitive responses to new entry. At Newark, a Continental network hub, Continental did not attempt to compete for the low-fare traffic targeted by JetBlue. Rather, it reduced the number of lower-fare seats—possibly in order to reallocate those seats to higher-revenue flow traffic over the hub. US Airways at LaGuardia took a moderated approach—adjusting traffic mix slightly to accommodate greater low-fare demand — that resulted in a slight passenger increase and a drop in fares of 11%. JetBlue's most direct

competitor—American Airlines out of JFK – increased low-fare availability greatly and tripled its own traffic in the process.

### *Overall Effect*

As a whole, traffic levels in the Buffalo – New York City market increased by 54% from 112,610 passengers to 173,110 passengers after JetBlue's entry.. Average one-way fares dropped simultaneously from \$143 each way to \$115, a 20% decline.



### *Newark – Buffalo (Chart 1- attached)*

Continental maintains a network hub at Newark and therefore provides almost all service between Newark and Buffalo. When JetBlue began service out of JFK, Continental's traffic levels between Newark and Buffalo dropped by 26%. The majority of traffic lost was at the lower fare levels equivalent to those of JetBlue. Continental's non-restricted fares increased slightly. The loss of low-fare traffic and the increase in high-end fares resulted in an average fare increase for Continental of 23% in the Newark-Buffalo market.

### *LaGuardia – Buffalo (Chart 2 - attached)*

US Airways is the primary service provider between LaGuardia and Buffalo. US Airways traffic increased by only six percent after JetBlue's entry. Most of the traffic growth at low-fares was the result of a passenger mix adjustment rather than overall capacity increases. US Airways also increased its upper-end fare level.

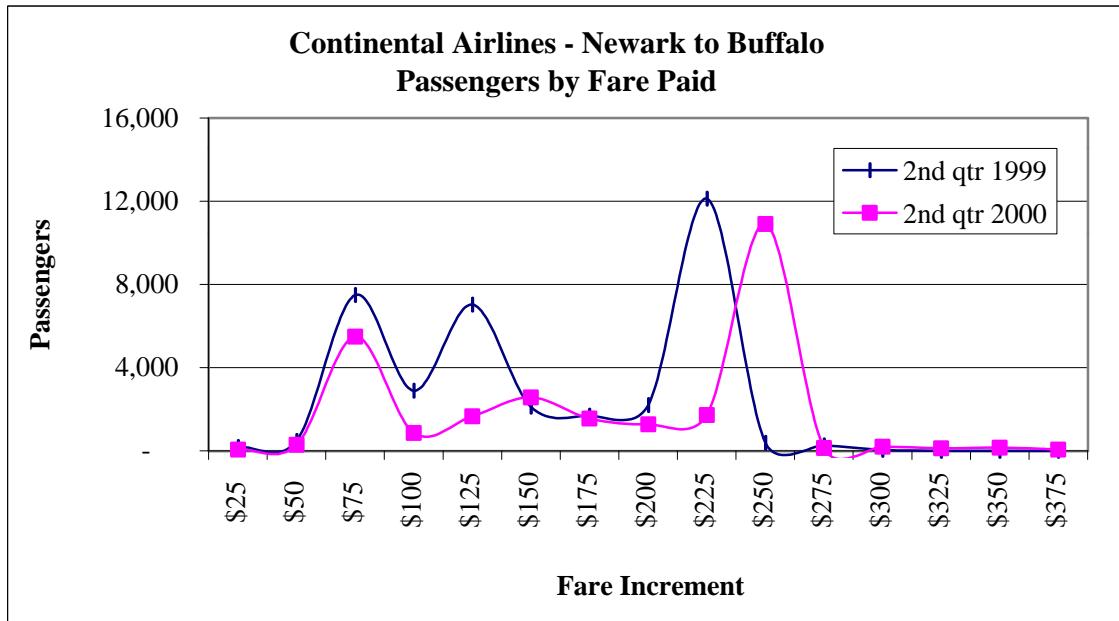
### *JFK – Buffalo (Charts 3 & 4 – attached)*

American Airlines went head-to-head with JetBlue at JFK, with very different results. Prior to JetBlue's entry, American maintained a passenger distribution with a peak in discount seats between \$100 and \$125 and a peak in less-restrictive fares around \$250. After JetBlue's entry, American increased the capacity it offered at under \$125 dramatically. American carried

approximately the same number of passengers at fares above \$125 after JetBlue entry as it did before. American traffic tripled and its average fare dropped by a third.

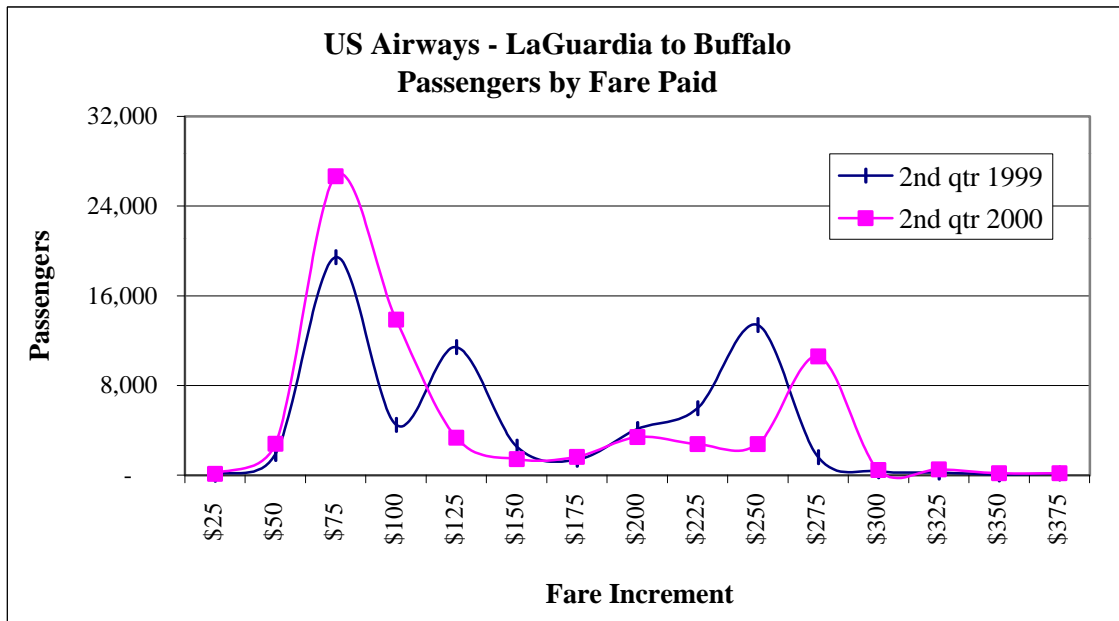
Including JetBlue's passenger data (Chart 4) into the JFK – Buffalo analysis demonstrates the magnitude of discount travel stimulation resulting from increased capacity and lower fares.

Chart 1:



	1999/2	2000/2	Change
Passengers	36,950	27,230	-26%
Avg Fare	\$ 142	\$ 175	23%

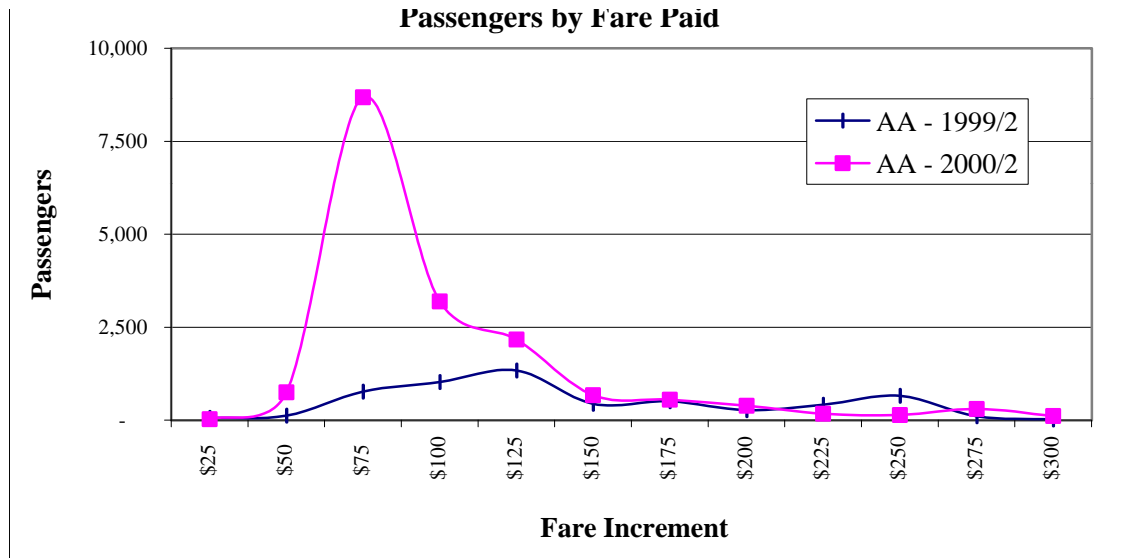
Chart 2:



	1999/2	2000/2	Change
Passengers	67,150	71,020	6%
Avg Fare	\$ 143	\$ 127	-11%

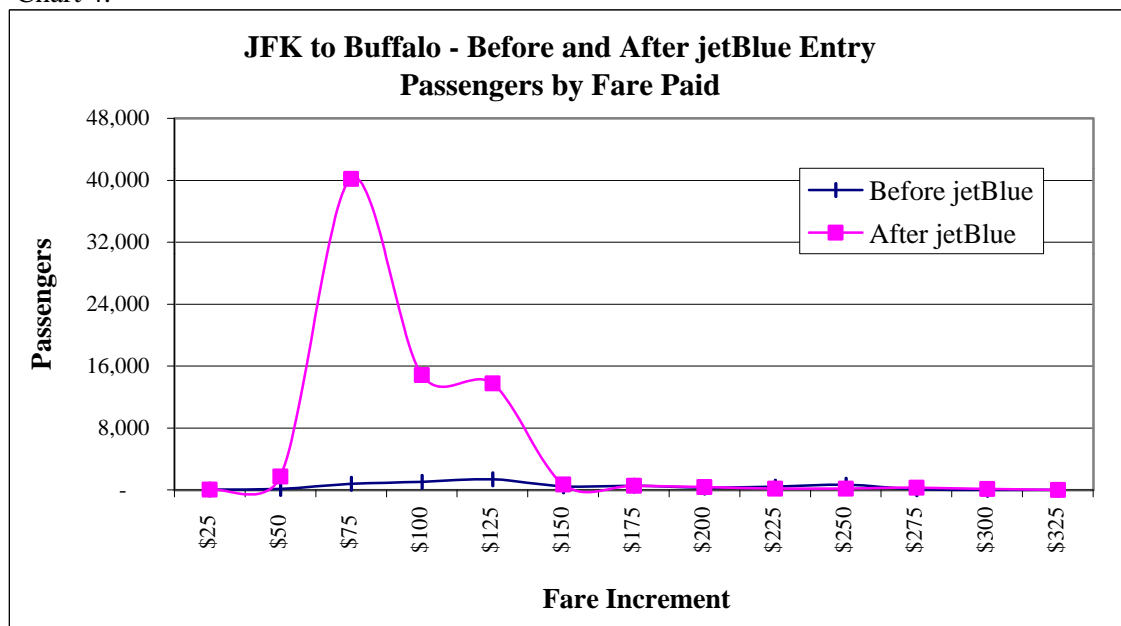
Chart 3:





	1999/2	2000/2	Change
Passengers	5,760	17,180	198%
Avg Fare	\$ 135	\$ 89	-34%

Chart 4:



	1999/2	2000/2	Change
Passengers	5,860	73,050	1147%
Avg Fare	\$ 135	\$ 79	-41%